MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

DMG5028 – MANAGEMENT ACCOUNTING 2

(All sections / Groups)

5 MARCH 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTION TO STUDENTS

1. This question paper consists of **5** pages with 5 questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

Part A

Today, you learned about sunk costs in class. However, your course mate is still confused about it.

Instruction
Briefly explain to your course mate the meaning of sunk costs and give one example of sunk cost in relation to the decision on whether to retain or replace equipment.

(2 marks)

Part B

Syarikat Kekal Bersatu manufactures three products using the same production process. The costs incurred up to the split-off point are RM350,000. These costs are allocated to the products based on the basis of their net realisable value. The number of units produced, selling prices per unit at split-off point and after further processing, as well as the additional processing costs are as follows.

Product	Number of Units Produced	Selling Price at Split-Off	Selling Price after Processing	Additional Processing Costs
Aay	5,000	RM20	RM25	RM18,000
Bee	8,000	RM23	RM28	RM32,000
Cee	3,000	RM35	RM39	RM16,000

Instructions
(a) Determine the total net income if all three products are sold after further processing.

(2 marks)

(b) Using incremental analysis, determine which product(s) should be sold at the split-off point and which should be processed further.

(6 marks)

Part C

Desa Manufacturing currently produces Component A12 for one of its products. The cost structure to manufacture 20,000 units of Component A12 is as follows.

Direct materials	RM200,000
Direct labour	160,000
Variable overhead	24,000
Fixed overhead	120,000
	RM504,000

Desa Manufacturing is approached by Airlink Heavy Machinery, which offers to make Component A12 for RM22 per unit. If Desa Manufacturing agrees on this, its fixed overhead can be reduced by 40%. At the same time, the productive capacity released by not making the component could be used to produce income of RM25,000.

Continued...

Instructions

(a) Prepare the incremental analysis for the decision to make or buy Component A12.

(9 marks)

(b) Should Desa Manufacturing make or buy the component part? Why?

(1 mark)

[TOTAL 20 MARKS]

QUESTION 2

Part A

Target cost is the cost that will provide the desired profit on a product when the seller does not have control over the product's price.

Instruction

Briefly explain the two steps to determine target cost of a product. (2 marks)

Part B

Maze Manufacturing produces several types of running shoes. The company has gathered the following information concerning one model of its shoes.

Direct material	RM18 per unit
Direct labour	RM14 per unit
Variable manufacturing overhead	RM12 per unit
Variable selling and administrative costs	RM15 per unit
Fixed manufacturing overhead	RM175,000
Fixed selling and administrative costs	RM130,000
Investment	RM1,500,000
ROI	30%
Planned production and sales	5,000 pairs

Instructions

(a) Compute each of the following under the full-cost approach:

(i) Markup percentage needed to provide the desired ROI. (8.5 marks)

(ii) Target price of the shoes. (2 marks)

(b) Compute each of the following under the variable-cost approach:

(i) Markup percentage needed to provide the desired ROI. (5.5 marks)

(ii) Target price of the shoes. (2 marks)

[TOTAL 20 MARKS]

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QUESTION 3

Part A

Soft Tech, a software development company, has two operating departments, Corporate and Consumer; and two support departments, Information Systems (IT) and Human Resources (HR). The company uses processing time (in minutes) to allocate IT costs and number of employees to allocate HR costs. The following data are available for March 2018.

	Support Departments		Operating Departments	
	IT	HR	Corporate	Consumer
Departmental costs before allocation	RM78,000	RM240,000	RM818,000	RM554,000
Processing time	-	400	2,700	2,100
Number of employees	10	-	30	20

Instructions

(a) Using the direct method, allocate the support department costs to the operating departments. (5.5 marks)

(b) If the company had used the step-down method instead, calculate the IT costs allocated to Corporate and Consumer. Assume that IT costs are allocated first. (3 marks)

Part B

Zahir Corporation purchases timber and processes them up to the split-off point where two products, paper and pencil casings are obtained. These products can be sold to wholesalers and retail outlets. The following information was collected for the month of March.

Production	:	Paper	7,200 sheets
		Pencil casings	10,800 casings
Selling price at split-off	:	Paper	RM10 per sheet
		Pencil casings	RM12 per casing

The costs of purchasing the timber and processing it up to the split-off point to yield the total paper and pencil casings was RM120,000. Zahir Corporation's accounting department reported no beginning inventory of either product.

Both products can be processed further without gain or loss in volume. Paper may be processed further to yield Premium Paper, for an additional processing cost of RM4 per sheet. It can then be sold for RM18 per sheet. The company sold 7,000 sheets of Premium Paper that month.

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Pencil casings can be processed further to yield Premium Pencil Casing for a total additional processing cost of RM50,000. The product can be sold for RM25 per casing. The company sold 10,000 Premium Pencil Casing that month.

Instruction
Calculate Zahir Corporation's gross margin percentage for Premium Paper and Premium Pencil Casing when joint costs are allocated using the physical method. *(Hint: Round up the production cost per unit to the nearest sen).*

(11.5 marks)

[TOTAL 20 MARKS]

QUESTION 4

Jenn Manufacturing's budgeted sales information for 2017 is as follows.

	Q1	Q2	Q3	Q4
Sales units	6,000	8,000	10,000	12,000
Selling price	RM50	Expected to increase 10%	Same as Q2	Expected to increase 10%

The finished goods on hand on 31 December 2016 was 1,000 units. Each unit requires 4 pounds of raw materials that are estimated to cost an average of RM3 per pound. It is the company's policy to maintain a finished goods inventory at the end of each quarter equal to 30% of next quarter's anticipated sales. In Q3, the company expects to produce 10,600 units of finished goods.

Jenn Manufacturing also has a policy of maintaining a raw materials inventory at the end of each quarter equal to 20% of the pounds needed for the following quarter's production. There were 5,800 pounds of raw materials on hand at 31 December 2016.

In addition, each unit of finished goods requires 1.5 hours of direct labour hour and the wage rate per hour is expected to be RM6.

Instruction
Prepare the following budgets by quarters for the six-month period ended 30 June 2017:

(a) Sales budget (4 marks)
(b) Production budget (4.5 marks)
(c) Direct materials budget (8 marks)
(d) Direct labour budget (3.5 marks)

[TOTAL 20 MARKS]

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QUESTION 5

Part A

KC Manufacturing produces a premium product, K5. For the past years, the company has been charging overhead to products based on machine hours. However, under the new accountant's recommendation, KC is considering adopting activity-based costing. Below is related information provided by its accountant.

Activity Cost Pools	Cost Drivers	Expected Use of Cost Drivers	Estimated Overhead (RM)
Purchasing	Number of orders	675	54,000
Machine setups	Number of setups	1,250	62,500
Utilities	Square feet occupied	100,000	200,000
Production	Direct labour hours	40,000	240,000

The company has received an order for 500 units of K5. The total cost estimates and usage of cost drivers for the order are: Direct materials RM77,000; Direct labour RM80,000; 60 purchase orders; 100 machine setups; 5,000 square feet occupied and 6,000 direct labour hours.

Instructions

(a) Compute the overhead rates using the activity-based approach. (6 marks)

(b) Compute the manufacturing cost per unit. (4 marks)

Part B

Sapien Manufacturing provided the following information about its standard costing system for 2017.

Standard Data	
Materials	10 pounds for RM12 per pound
Labour	3 hours for RM15 per hour
Budgeted production	3,000 units

Actual Data	
Actual production	3,500 units
Materials purchased	38,000 pounds for RM494,000
Materials used	36,000 pounds
Labour worked	10,000 hours for RM130,000

Instructions

(a) Calculate the material price variance. (2.5 marks)

(b) Calculate the material quantity variance. (2.5 marks)

(c) Calculate the labour price variance. (2.5 marks)

(d) Calculate the labour quantity variance. (2.5 marks)

[TOTAL 20 MARKS]

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